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ABSTRACT

Financial issues remain a concern in the higher education literature. From the early to mid-1990s, cost containment was viewed as the primary solution to strapped finances. Several factors altered the higher education landscape in the latter part of the 1990s as the stronger economy benefited many campuses. This economic upswing cannot last forever, and some campuses are anticipating a downturn in the economy. A review of the literature on finance in higher education revealed some trends: (1) an increase in public funding; (2) the use of funding priorities; (3) focus on faculty salary issues; (4) use of profit sharing; (5) use of multiple financial strategies; (6) new revenue generation; (7) the proliferation of for-profit higher education; and (8) increased marketing. Although it is often difficult for researchers to keep up with changes in practices and market conditions and to provide educators with needed information, innovative ideas are shared in the literature about promising models. This type of sharing is profitable for the collective future of higher education institutions. (Contains 15 references.) (SLD)

ERIC TRENDS 1999-2000:

FINANCE

by Adrianna J. Kezar

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What are ERIC Trends?

Educational Research Information Center (ERIC) Trends are analyses of higher education literature contained in the ERIC Database. These analyses describe major concerns in institutional practice, helping researchers identify new areas for research, areas where further understanding is needed, and any gaps in the literature. For practitioners, ERIC Trends place individual institutional shifts in practice into a larger context. They provide individual institutions with examples of other institutions that are trying to make the same changes and help institutions identify other areas they should consider for change.

Slightly more than half of the literature summarized in ERIC Trends is drawn from higher education journals. The remainder of the literature summarized includes conference papers and documents published by educational associations, institutional research offices, research centers, consortia, and state and federal associations and boards. The literature is produced by both the research and practice communities. It is a combination of current theory and research, such as conference papers and Internet documents, and more dated literature, such as books and journal articles, which take several years to evolve from acceptance to publication. A limitation of this analysis is that it relies on the literature ERIC is able to obtain from authors and organizations; some groups may be unwilling to share information and, therefore, are not represented in the analysis. The range of documents analyzed in the ERIC Trends is fairly comprehensive, however.

To retrieve the literature for analysis, all of the higher education literature in the ERIC database was searched by the ERIC descriptors that reflect the most important topics in higher education: college faculty; college students (including foreign students); finance; college instruction (including academic advising); curriculum; program evaluation; policy and governance; legal issues; professional development; college administration (including educational facilities); higher education and the public good; and professional and graduate education. A quantitative analysis compared the current number of documents within a particular category to earlier years (back to 1986). A qualitative analysis of content was conducted on ERIC abstracts to identify recurring themes.

Higher Education Trends (1999-2000): Finance

by Adrianna J. Kezar

Financial issues remain a concern in the higher education literature. From the early to mid-1990s, cost containment was viewed as the primary solution to strapped finances. Several factors altered the higher education landscape in the latter part of the 1990's: public institutions received more funding than earlier in the decade, thus relieving some of their financial stress; many campuses benefitted from the healthy stock market, with short term gains allowing them to stave off major restructuring anticipated for the latter part of the 1990's; low interest rates and high returns on endowments encouraged many colleges and universities to borrow more money than ever. An increasing reliance on bond issues and deficit spending will work as long as the economy remains strong. Colleges with more aggressive governing boards are using debt to reposition themselves in the higher education market (van der Werf, M.). This economic upswing cannot last forever, however. A new president will take office in 2001, an event which may impact our nation's economy.

Some campuses are anticipating a downturn in the economy and realize that they cannot continue to depend on borrowing or tuition for revenue gains. As a result, some are experimenting with revenue generation to offset declining funding. Campuses are employing strategies such as prioritizing spending, establishing alternative employment contracts, and adopting strategic financial planning to minimize financial constraints. An increasing number of institutions are also establishing practices such as enrollment management and endowment investment for strengthening financial stability.

The following trends in the literature emerged in the area of finance:

1. An increase in public funding
2. The use of funding priorities
3. Focus on faculty salary issues
4. Use of profit sharing
5. Use of multiple financial strategies
6. New revenue generation
7. The proliferation of for-profit higher education
8. Increased marketing

Overall, the financial picture has changed in higher education from one of constraint to one of entreprenuerialism, pursuit of new markets, pursuit of additional revenue, and increased marketing. This emphasis on restriction and containment prevalent in the mid-1990s has given way.

Increase in Public Funding

A national study found that state appropriations to higher education reached $52.8 billion in fiscal year 1999, an increase of 6.5 percent over the previous year. In addition, higher education's

share of state general fund budgets increased in 1999 for the first time in over a decade. Appropriations per student have recovered since 1993 and have returned to their 1978 levels (in constant dollars); in academic year 1998, an estimated total of $60.5 billion in student financial aid was provided, an increase of 6 percent over 1997. This rise in public spending has been accompanied by greater accountability as 34 states have adopted some form of performance budgeting or performance funding (McKeown-Moak, M. P.). The emphasis on accountability is discussed in detail in the ERIC Trends in Administration and International Higher Education.

Funding Priorities

Some critics are still lobbying for cost containment and are encouraging institutions to think about cost containment in terms of temporary, mid-term, and permanent changes to institutional operations and priorities. But even these individuals suggest it may be more productive to reframe the issue as "funding priorities" rather than as "cost containment." It must be acknowledged that continued cuts will, at some point, result in diminished returns to academic institutions. Because an institution's major expense is salaries, continued budget cuts will ultimately affect the quality of instruction a school offers.

A national study of institutional prioritizing examined 11 successful budgetary principles. The 11 principles address the following areas: (1) campus planning; (2) long- and short-term budget plans; (3) selective versus across-the-board cuts; (4) expenditure reductions versus revenue increases; (5) criteria for budget cuts; (6) long-term, not short-term, personnel strategies; (7) raising productivity and performance in all areas; (8) reducing degree programs; (9) restructuring offices and activities; (10) refocusing campus missions; and (11) quality and access in undergraduate education. The results of the survey found that institutions often failed to follow the budget principles and had difficulty prioritizing (Burke, J. C.). It is important to have research that explains why it is so difficult to maintain budget priorities. Examining institutional budgetary habits, planning, assumptions, and priorities will continue to be important activities in future research.

Faculty Salary Issues

Since salaries are the major expenditure for colleges and universities, a large part of the higher education research has examined ways to adjust compensation systems. This is related to a change among the faculty: more part-time and contract faculty (see the ERIC Trends on Faculty). Use of part-time and contract faculty is a way to manage the high cost of salaries, to allow more flexibility, and to adjust to changes in the marketplace and society. Pay disparity between races and genders among both faculty and staff is discussed in many different studies and continues to be a focus of equity discussions (Good, J. M.; Halpin, G.,& Halpin, G.).

In at least ten states, often those with the lowest public college faculty salaries, higher education leaders have made more competitive faculty salaries a top legislative priority in recent years. Many of the proposals have encountered resistance from governors and state legislators who have other budgetary priorities or who feel that public college faculty are paid well enough. (Schmidt, P.) (Hearn, J.). Some states have developed model approaches to addressing staff salary issues. For example, universities are having difficulty successfully competing with the

private sector in hiring and retaining information technology staff. The California State University implemented a new system-wide classification and compensation structure for information technology professionals in 1996; the plan features more flexibility, more room for growth in job classifications and design, and professional recognition. One article describes the compensation structure, union negotiations, and lessons learned (Giunta, C. M). Salary issues are among the most difficult to manage; we continue to need new and innovative ideas, models, and research.

Profit-sharing

Some campuses are being creative in their approaches to compensation. Wheaton College in Norton, Massachusetts addressed the problem of inadequate faculty salaries by developing and implementing a "profit-sharing" plan that adjusts the faculty salary pool in relation to changes in the institution's financial well-being. It notes that faculty-administration relations at the small liberal arts college had soured in the early 1990s as a result of faculty salary issues. The plan posits that as the college's resources increase or decrease relative to the mean of nine comparison institutions, Wheaton faculty salaries will change by the same margin. The "floor" of the plan stipulates that faculty salaries will increase at the rate of the consumer price index, while the "ceiling" stipulates that if Wheaton faculty salaries become equal to the mean salaries at the comparison institutions, they will not exceed that mean until Wheaton's resource base increases to within 20 percent of the average resources of the comparison institutions (Wegner, G. R.). This approach increases faculty involvement in the financial well being of the institution and increases their interest in the dialogue about and accountability for finances and marketing. Innovation withfinances may prove to be an untapped resource for campuses. Sharing more of these strategies would be healthy for the higher education community.

Multiple Strategies

In addition to more creative solutions, writers are suggesting a mix of strategies they term "creative frugality" -- looking for more than one way to address financial constraints. One article identified some key strategies for institutions to consider, including: (1) attracting additional revenues to help close the gap between resources and expenses; (2) reassessing tuition and financial aid policies to alter the size or mix of the student body; (3) cutting costs, improving quality, and restructuring how the institution educates students and administers its programs; (4) introducing or expanding the use of technology to educate students and improve administrative functions; and (5) increasing resource sharing by forming alliances and cooperating with other institutions. The higher education literature has stressed the importance of attracting new revenue, but more research is needed in this area. Over the past decade, campuses focused on cost containment and reassessing tuition; this is an area in which we have a great deal of research and data. Forming alliances and consortia is an area that is often touted in the literature, but little empirical research exists about the benefits. Many models of collaboration exist, but there is not compelling evidence that collaboration results in financial gain to institutions. Technology has yet to prove successful in cutting costs; in many instances, it has increased costs. Models of technology cost reduction are often written about by EDUCAUSE. These strategies need to be implemented and evaluation conducted.

New Revenue Generation: Expanding Markets

Three major issues were noted in the emergence of new markets: (1) growth of continuing education; (2) certificate programs; and (3) degree upgrade programs. Once regarded as a sideline of colleges and universities, continuing education programs now provide needed revenues. Although there is increasingly more literature in the area of continuing education, this continues to be an under represented area in the higher education literature, even though it may serve an important financial role for the institution. Adult students now account for half of all college enrollments. Continuing education is seen by many administrators as a financial lifesaver since it tends to be taught by adjunct faculty (Gose, B.). Increasingly, graduate schools and schools of continuing and professional studies are offering postbaccalaureate certificates, credentialing programs that reflect new demands in the workplace and global markets. The certificate programs lead to or supplement a graduate degree, recognize mastery in a professional or technical field, or focus on specific skills within a job classification or industry role (Irby, A. J.). Certificate programs may be the largest area of growth over the next decade. Some schools are responding rapidly by developing schools of professional studies.

Another interesting strategy is the degree upgrade, a program designed to attract graduates not seeking advanced degrees and to develop a continuing relationship with them. This new service targets a previously untapped and constantly growing market segment, creates a continuing demand for services, and redefines traditional concepts of lifelong learning (Adler, K.).

Another study in the literature explored the changing environment for serving adult learners and focused on new modes of delivering instruction, distance education, the use of information technology; the increasing emphasis on convenience, the focus on special markets, and the emergence of large-scale, profit-driven enterprises. It is argued that to develop an effective response, universities must understand key characteristics of the emerging competitive environment for lifelong learning. More research in this vein is needed since capturing revenues from other sources may be required to support the core mission of colleges and universities.

Another strategy related to revenue generation is fund-raising among community colleges. Almost all of the country's 1,100 community colleges have begun fund-raising, some with great success. They are beginning to compete with larger institutions for foundation money. The money supplements operating budgets, and many colleges are building endowments that enable them to offer scholarships and keep student costs low.

For-Profit Higher Education

As just described, the higher education literature illustrates a growing awareness of the opportunity for revenues from continuing education and virtual academic opportunities. But, this slowly-increasing awareness may be too late to allow nonprofit institutions to compete successfully with the many for-profit higher education institutions that have emerged in the last five years. For-profit competitors are responsive to students, especially adult students. One study examined the economics of the growing sector of for-profit higher education institutions, comparing the cost-price-subsidy structure of traditional institutions with these nontraditional institutions. Implications for the schools least able to withstand competition with for-profit

institutions, generally private colleges/universities and high-subsidy schools such as state and elite universities, were discussed (Winston, G. C.). We know very little about the growing for-profit area. More studies that describe and analyze this sector are needed. Most of the literature stresses the threat of this sector, rather than examining it empirically for lessons that can be learned to inform all of postsecondary education.

Marketing Higher Education

In addition to revenue generation, marketing higher education institutions has also been emphasized in the literature over the last few years. This interest in marketing is illustrated by the growth and development of the *Journal of Marketing in Higher Education*. Many books are now available that offer step-by-step approaches to marketing for educational institutions. Strategies range from developing a new college president's image, to strategic time management, to surveying the community about a college's image (Norris, M.). For example, a survey of state residents asked their thoughts about a regional university. Statistical modeling of results pointed to the significant components of university image and how they influence parents' decisions to send their children to that institution. This finding, in turn, leads to better understanding of the impact of institutional image. (Landrum, R. E., Turrisi, R., & Harless, C.).

Research examining the impact of these new financial and marketing approaches is needed. One study examined how research universities are responding to the complex challenge of revenue generation and budgeted expenditures in a market-driven age, and concluded that institutions adapt by incorporating market-like behavior into their business plans. The study found differences between institutions experiencing and those not experiencing enrollment declines and found a relationship between increased reliance on particular revenue sources and student service expenditures (Francis, J. G., & Hampton, M. C.). These types of studies can help to direct institutions to successful approaches, to make them aware of challenges, and to identify philosophical issues, e.g., academic quality, student characteristics, and curriculum choices. It is critical that this area of research continue to receive attention.

Conclusion

Financial issues change fairly rapidly (as do issues in policy research). It is often difficult for researchers to keep up with changes in practices and market conditions and to provide educators with needed information. Yet, innovative ideas are shared in the literature about promising models, e.g., profit-sharing, outsourcing, marketing, and new revenue generation. These models are helpful even if they have not been empirically proven. This type of sharing is profitable for the collective future of higher education institutions. Other areas that are more stable, such as financial planning and strategy, need further study within the context of higher education since so many models are merely adopted from corporate environments.

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